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WorldCom Clarifies MCI Plans

Bidder Pledges It Will Not Abandon Residential Customers

By Mike Mills
Washington Post Staff Writer

WorldCom Inc. yesterday said it plans to continue serving all of MCI Communications Corp.'s 20 million residential long-distance customers, should it succeed in its unsolicited bid to buy MCI for \$30 billion.

The statement came in response to an article in yesterday's Washington Post that quoted WorldCom Vice Chairman John Sidgmore about the potential benefits of moving MCI out of the consumer long-distance business, if the merger goes through, to focus exclusively on business customers.

A WorldCom statement yesterday said: "WorldCom will not abandon MCI's residential long-distance customers." But it did not elaborate on its plans for the residential business.

Under a possible strategy outlined by Sidgmore in the article, WorldCom would turn MCI's residential customers over to other long-distance companies, which would handle billing and customer service. Those companies would purchase wholesale long-distance capacity from WorldCom and MCI but serve former MCI customers under their own brand names.

In an interview upon which the article was based, Sidgmore talked about that course as a "possibility" or something that "we would consider." The first sentence in The Post's article said that MCI "would jettison" the residential customers if the acquisition goes through. Business section Assistant Managing Editor David Ignatius said yesterday that the wording was stronger than Sidgmore's remarks warranted.

At the same time, Sidgmore talked in detail about the benefits WorldCom and MCI would enjoy by getting out of residential long-distance calling, which generally is a low-profit business. "Our religious focus is on the business customer," he said. "It is a jihad. This other market is something new."

Analysts said that WorldCom's shareholders would support the company's steering away from residential business, in which growth has been slowing amid intense competition in the past year.

But such a move would not be at all popular with MCI management—which still is analyzing the buyout offer—or with employees, or customers, analysts said.

Some industry analysts also were critical of any such strategy. "Breaking it up so you can keep business customers, and farming out the residential customers, serves WorldCom's purpose, I guess. But it's just unsettling," said telecom analyst Jeffrey Kagan of Kagan Associates in Atlanta.

"If it was any other company than MCI, it would make perfect sense," said Kagan. "But you're dealing with an MCI, which is the number two

long-distance company. It's near and dear to the hearts of their customers and to America."

"MCI broke up Ma Bell," he said, referring to the court battle that helped bring about the dismantling of the AT&T monopoly phone system in 1984.

Such a change for MCI likely would capture the attention of regulators who would have to approve any WorldCom-MCI merger. "This is clearly a factor that the commission would want to look at, along with a lot of other relevant factors," said one official at the Federal Communications Commission last night.

Yesterday WorldCom moved its offer forward on the legal front, asking a Delaware court to strike down a provision in MCI's pending merger agreement with British Telecommunications PLC that would protect it from hostile takeovers from other companies. WorldCom also asked the court to allow MCI to escape paying BT a \$450 million breakup fee if MCI pulls out of that deal.

WorldCom shares closed yesterday at \$38.06 $\frac{1}{4}$, up 18 $\frac{3}{4}$ cents. MCI finished trading at \$36.18 $\frac{1}{4}$, down 43 $\frac{3}{4}$ cents.

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MCI Communications Corp. would jettison its approximately 20 million residential long-distance customers and focus solely on more profitable business customers if a proposed \$30 billion buyout of MCI goes through, according to a top official of the company that would make the purchase.

* John Sidgmore, vice chairman of WorldCom Inc., said in a telephone interview that the residential customers likely would be transferred to other long-distance companies, potentially including the regional Bell companies.

For example, he said, "an MCI customer would become a Bell Atlantic customer."

* Under this scenario, calls would still be carried by WorldCom and MCI wires. But the job of setting rates, providing operators and billing the customers would belong to the other companies. The customer would never hear the MCI name or deal with the company.

* WorldCom would "sell" MCI customers to other long-distance companies, who would pay for rights to serve established accounts. Because customers are legally guaranteed the right to choose their long-distance provider, they would not have to stay with the company they were moved to.

Precisely when and how all this would occur is unclear: Even

* under the speediest scenario, WorldCom would have to wait until next year to buy MCI. "We're not saying [the end of residential service] is definitely going to happen on day one," Sidgmore said. Initially "we're going to market to consumers just like MCI does. On the other hand, our strategy is not in the consumer business."

"It's very difficult for us to find a way to make economic sense out of the advertising budgets, the customer service budgets, etc., required to be in the consumer business. We might be willing to

let somebody else do the retail marketing of that consumer business," he said.

- * WorldCom has long seen its specialty as "wholesaling" of telecommunications capacity. It operates high-capacity fiber-optic lines that it leases to more than 50 other long-distance companies, which use the lines to carry their calls. It sells long-distance service under its own name primarily to business customers.

Such a move would be a remarkable shift for MCI, which built much of its early business with a blitz of TV ads aimed at Americans fed up with the rates of AT&T Corp. In recent years, it has taken on millions of customers through its "Friends and Family" discount program. Just three weeks ago, it offered American customers phone calls on Sunday for a nickel a minute within the United States.

The shift would roil the nation's annual \$38 billion residential long-distance market by removing one of its largest players. At present the market is dominated by AT&T, MCI and Sprint Corp.

MCI today controls roughly 16 percent of it, generating revenue that outside analysts estimate at \$6 billion. But its growth in the consumer market has slowed over the past year as price competition from smaller long-distance companies has shrunk MCI's profit margins.

In the long-distance business, profits from residential customers can be low or nonexistent. Many homes spend just a few dollars a month, but must still be billed and tended to. Plus, companies must compete with others with such tactics as \$80 checks to win customers who often just stay a few months before moving on to another company offering a check.

According to Brian Adamik of the Yankee Group, a Massachusetts market research firm, about three-quarters of MCI's residential customers switch to a different company each year.

Residential competition will grow even more fierce once the regional Bell companies win permission from regulators to offer long-distance to their local customers, industry analysts say. Even

- * before the WorldCom offer, MCI was growing tired of the fight and had cut back on money spent on checks.

Business customers, in contrast, are more stable. Employees talk long, secure in the knowledge that the company is paying the bill.

- * Shifts like those WorldCom is planning are "going to be increasingly prevalent in the telecommunications industry," said Dwight Allen, a telecommunications analyst for Deloitte & Touche Consulting Group in the District. "Until now it's been all about providing basic phone service universally. But it's becoming increasingly possible for companies to focus on particular market segments . . . There will be others who will see the residential

marketplace as being their specialty."

- * Adamik said that with MCI, WorldCom is seeking the best of both worlds. It would retain the high profits that MCI's business customers generate, plus the guaranteed flow of payments from other long-distance companies that used MCI's wires to carry residential calls.
- * On Wednesday, WorldCom made an unsolicited offer for MCI, throwing into turmoil year-old plans by British Telecommunications PLC
- * to buy the Washington-based long-distance giant. WorldCom is offering roughly \$9 billion more than BT's last offer.
- MCI officials, who were meeting yesterday to plan a reaction to
- * WorldCom's offer, declined to comment on Sidgmore's remarks.
- * By acquiring MCI, WorldCom would get the nation's second-largest long-distance carrier, with \$18.5 billion in annual
- * revenue. WorldCom also is interested in MCI's Internet fiber-optics network and its \$1.4 billion computer systems business.
- <http://www.washingtonpost.com>

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